Executive summary

The global economic outlook for 2024 is moderately optimistic given the recovery of high-income and developed countries from the COVID-19 shock and the repercussions of the war in Ukraine. Commodity price inflation seems to be contained both in the United States of America and other developed countries. In contrast, developing economies, including Arab countries, are struggling with high interest rates, capital flight to developed countries and high borrowing costs. Many developing countries are also suffering from a surge in labour market informality, a growing gender gap, and uncertainty around natural resources and global food prices. Global tourism is expected to recover to its pre-pandemic levels in 2023. The global consumption of oil recovered to the December 2019 pre-COVID-19 level in June 2023.

With the stabilization of oil and gas prices at moderate levels in 2023 and before the war on Gaza, the gross domestic product (GDP) of the Arab region was expected to grow at a moderate pace of around 3.6 per cent in 2024, and at a faster pace of around 4.2 per cent in 2025. The rebound in tourism and the financial sector as well as expansionary infrastructure projects are the region's other main drivers of growth. However, the war on Gaza, which started in October 2023, is expected to slow down economic growth in the region in 2024. The three-month war scenario predicts that in 2024, GDP will grow by 3.3 per cent. Inflation reached 12.3 per cent in 2023, mainly as a result of the halting of the Black Sea Grain Initiative and the significant negative impact on the prices of essential food items imported by Arab countries. Inflation is expected to decline to around 7.5 and 6 per cent in 2024 and 2025, respectively, in both the pre-war and three-month war scenarios.

While a cut in oil production and a decrease in demand are expected to slow economic growth in Gulf Cooperation Council (GCC) countries, the expansion of non-hydrocarbon sectors, particularly the entertainment business, as well as the recovery of the tourism sector, a burgeoning services sector and numerous infrastructure projects will accelerate an upward climb in GDP. Growth is expected to reach 4.1 per cent on average during the 2023–2025 period. The decline in global oil prices coupled with generous subsidies and national support programmes are expected to negatively affect revenues, however, and create a fiscal deficit of around 2 per cent of GDP during the outlook period.

The increase in phosphate and gas production from Arab middle-income countries is expected to drive economic growth, with GDP predicted to rise by 3.7 per cent on average during the 2023–2025 period according to pre-war scenario. The risks, however, are skewed downward amid high inflation and financing costs on one hand, and the ongoing war on Gaza and its impact on neighbouring countries on the other. The three-month war scenario expects a slowdown in economic growth to around 3.3 per cent during the period 2023–2025, given the significant impact of the war on the tourism sector and on capital inflow in Egypt, Jordan and Lebanon, in addition to mounting fears of an escalation of the war into a regional conflict. Middle-income countries are expected to continue to have constrained fiscal space and to be significantly affected by fluctuations in commodity prices. Many have maintained costly food and energy subsidies. The fiscal deficit is expected to widen and reach 7.3 per cent in 2024 and 6.6 per cent in 2025. Debt levels are predicted to improve as a result of the better debt position of Egypt and changes in Lebanon.

The situation in Arab conflict-affected countries remains uncertain and is overshadowed by the war on Gaza, political divides and security concerns. GDP was expected to increase by 4.5 per cent on average during the period 2023–2025 in the pre-war scenario. The three-month war scenario predicts that GDP will grow by 4.2 per cent in the same period. Conflict-affected countries will likely witness a deterioration in their fiscal position from 3.8 per cent of GDP in 2023 to 6.2 and 8 per cent in 2024 and 2025, respectively. The war on Gaza, with the severe level of violence against Palestinian civilians, is pushing the Gaza strip into dire economic and social conditions and has propagated to the whole State of Palestine. GDP in Palestine is expected to decline by 4.4 per cent during the period 2023–2025, while the massive number of casualties and injured in addition to the vast destruction will likely push the State of Palestine 10 to 15 years back.

The outlook for the Arab least developed countries is highly uncertain and gloomy, and is affected by the escalating conflict in the Sudan. GDP is expected to contract by 3.8 per cent on average during the 2023–2025 period. The least developed countries continue to face constrained fiscal space and challenging socioeconomic conditions. The fiscal deficit is expected to improve, however, from 3.2 per cent of GDP in 2023 to 2.6 and 2.3 per cent of GDP in 2024 and 2025, respectively.

One third of the region's population – 33 per cent – falls under the ESCWA poverty threshold, which is comparable to national poverty lines. The share is expected to decline sluggishly to 32.7 per cent by 2025. Arab middle-income countries could see their poverty rates gradually recovering from their height during the pandemic years, declining from 25.1 per cent in 2022 to an estimated 23.8 per cent by 2025. In the least developed and conflict-affected countries, poverty rates have jumped from 44.4 per cent in 2019 to 48.9 per cent in 2023, and are expected to further rise to 49 per cent in the 2024–2025 period. The war on Gaza is threatening to push the entire population of the Gaza strip, around 2.3 million Palestinians, into multidimensional poverty, and that poverty will increase in Lebanon and Palestine. In the GCC countries, poverty is projected to decline near monotonically from 10.7 per cent in 2019 to 9.6 per cent in 2023 and 9.1 per cent in 2025. These diverging poverty trends in the region go along with differing levels of inequality.

The Arab region continues to have the lowest global gender gap score among all world regions, at 0.62, implying a 0.38-point gap in 2023. This score indicates deep-rooted challenges, including sociocultural norms, policy barriers and labour market issues. The estimated time to bridge the gap is over 150 years.

In terms of women's education, the educational gap is around 4.6 per cent, displaying the region's commitment to achieving gender parity in education. In economic participation, the gender gap stands at 40.33 per cent in 2023, placing the region second to last in the world, just above Southern Asia and behind the global average of 60.1 per cent. The Arab region's female labour force participation rate is 19.89 per cent in 2023, a low number explained by a mix of cultural, legal and practical reasons. Societal norms often suggest that women should prioritize home responsibilities. In some countries, laws restrict where and how women can work. Additionally, the absence of practical support, like affordable childcare, is a major barrier.

Overall, the unemployment rate in the Arab region is estimated to be around 11.6 per cent in 2023 and is predicted to marginally decrease to 11.5 per cent by 2024. The female unemployment rate stands at 20.1 per cent, while the male rate is 8.19 per cent. The situation for youth is daunting, with the general youth unemployment rate at 26.4 per cent or around 22.2 per cent for men and 42 per cent for women.

Inflation is partly imported and partly endogenous, and has generated severe currency crises in some countries, such as Lebanon and the Syrian Arab Republic. Even though many countries in the Arab region have managed to keep inflation rates at low to moderate levels, six countries have recorded high rates in the past few years, namely, Egypt, Lebanon, the Sudan, the Syrian Arab Republic, Tunisia and Yemen.

Many drivers could explain the spike in inflation, including energy prices, government expenditures, exchange rate pass-through and the money supply. Based on variance decomposition, the main sources of inflation in the six Arab countries with high inflation rates are government expenditure, the money supply and the nominal effective exchange rate. Given the persistence of energy subsidies in some countries, the impact of fluctuations in energy prices was limited. Also, a certain inflation inertia is evident, where the current price level depends on the price level of the previous period, indicating a high degree of downward price stickiness.

Inflation affects everyone, including households and businesses. It erodes consumer purchasing power when wages are not indexed to changes in prices and has harmful distributional effects on the most vulnerable communities. It accentuates poverty, increases the size of the informal sector and affects public finances.

Overall, the assessment shows that inflation continues to be a serious concern for the Arab region, notably for the six most affected countries. Containing the undesirable effects of high inflation should be among the leading priorities in monetary and fiscal policies in these countries, notably through reducing public expenditure and containing public debt. Coordinating fiscal and monetary policies is necessary during a disinflation process. Strengthening the independence of central banks is essential to enhancing the credibility of monetary policies. Finally, sustaining political stability is a key prerequisite for any successful policy.